



27 October 2016

2016 Retail Electricity Market Monitoring Review
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Lodged online.

To whom it may concern:

RE: 2016 Review of the Performance and Competitiveness of the Retail Electricity Market in NSW

Origin welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal (IPART) Draft Report on Performance and Competitiveness of the Retail Electricity Market in NSW.

Origin supports IPART's draft finding that competition for residential and small business customers is effective in the NSW retail electricity market and that consumers are benefiting through greater choice and innovation. We agree with IPART that recent price rises in New South Wales are consistent with a competitive market and that a detailed review of retail prices and profit margins is unnecessary. Origin believes that competition is working effectively and, in light of new technologies and product innovations, that the benefits of deregulation will continue to develop over time.

Origin notes that the Transitional Pricing arrangements established as part of the removal of price regulation came to an end on 30 June 2016. This has completed the removal of price regulation in the retail electricity market. Origin also welcomes the Government's decision to end gas price regulation in NSW, which was the last remaining regulated retail gas market in the east coast. Origin is participating, with other stakeholders, in a Government working group to address any remaining impediments to competition in regional areas of NSW.

Origin believes that the decision to end electricity retail price regulation has removed a significant regulatory barrier to entry by removing uncertainty and risk associated with the imposition of regulated prices. We have also observed that the number of active retailers in the market has increased in 2015-16, increasing the pressure on all retailers to compete to retain their customers through attractive offers, strong customer service and an increase in the number and variety of products and services being offered to customers.

We elaborate further on IPART's analysis below.

Barriers to entry and expansion

In Origin's experience, barriers to entry and expansion are generally low in NSW and don't impede competition or market entry. The entry of six new retailers in the last twelve months, in addition to the four that entered in the year following deregulation, indicates that barriers to entry are low. Expansion of second tier retailers at the expense of the first tier's customer base will depend in part on whether the latter provide customers with price competitive products and demonstrate to customers the value of their loyalty. As the report points out, first tier retailers (such as Origin) have met the challenge of competition by offering competitive products to retain our customers. Overall, barriers to entry have remained low enough to enable new entrants into the market and this has encouraged incumbents to compete for customer retention.

IPART correctly questions the ongoing role of state energy efficiency schemes, such as the NSW Energy Savings Scheme. Victoria, New South Wales, South Australia and the ACT each have their own individual schemes with differing objectives. The structure and compliance obligations associated with each of these schemes results in high operational and compliance costs relative to the additional environmental benefit they may achieve. We agree with IPART that the New South Wales Government should examine the ongoing relevance of the scheme, particularly with the imminent national review of climate change policy, which is scheduled to commence in 2017.

Origin's clear preference is that climate change policy be set at the national level. For the electricity sector, we recommend a suite of policies including:

- an explicit cost of carbon abatement in some form, such as an emissions intensity scheme;
- the promotion of renewable energy at significant scale; and
- the orderly retirement of the most highly emissions intensive generation plant.

Whilst we do not support a separate national energy efficiency scheme, we believe energy efficiency has a key role to play in helping Australia meet its pledged 2030 emission reduction goal, and other future longer-term targets. We suggest that energy efficiency measures in the electricity sector are better promoted by appropriate information and awareness policies and by national minimum standards for the energy efficiency of appliances and buildings.

Customer participation

The results of a survey conducted by the Australian Energy Market Commission (AEMC) suggest that 92% of residential and small business customers are aware that they can choose their retailer, and that 82% of residential customers are aware that they can choose different energy plans.¹ However, as IPART notes, only some customers switch despite being aware of their capacity to do so. In Origin's experience, customers are overwhelmingly experiencing the benefits of competitive retail markets, particularly with respect to price competition. This year, Origin's offers to attract new gas and electricity customers have included offering gas or electricity for free for three months, in addition to discounts off the standing offer. We also launched our 'Predictable Plan' product for new and existing gas and electricity customers. This enables customers to avoid bill shock by locking in the same cost each billing period for twelve months—regardless of how much customers use. These competitive offers are in response to a heightened level of competition. As a result, customers are receiving better price and product outcomes without necessarily switching retailers. Relatively high levels of customer satisfaction also contribute to the number of customers that elect to remain with their current retailer.

Origin believes that building customer loyalty is crucial to retaining customers in the face of competition. From the perspective of customer satisfaction, improvements to billing systems are demonstrating significant benefits. Billing complaints are generally the highest single factor behind complaints to energy ombudsmen in each jurisdiction. However, following the upgrades to billing systems, and concerted effort to improve customer experience, Origin has seen noticeable reductions in ombudsman complaints. In 2013-14, Origin recorded 10,635 complaints to the Energy and Water Ombudsman of New South Wales (EWON), which fell to 7737 in 2014-15.² In 2015-16, our EWON complain numbers will again decrease to under 5,000, meaning that Origin will have achieved a halving of complaints over the last two years. In addition to lower ombudsman complaints, Origin has seen a six point increase in its Interaction Net Promoter Score.³ Completion of Origin's online digital platform has improved functionality helping customers interact with Origin when and where they want,

¹ IPART, p. 24.

² EWON, 2014-15 Annual Report: Complaints by Company. Accessed here:

<http://www.ewon.com.au/index.cfm/publications/annual-reports/annual-report-2014-2015/complaints-by-company/>

³ Net Promoter Score (NPS) is a measure of customers' propensity to recommend Origin to friends and family after a recent service interaction with us. See Origin Energy, *Annual Report 2016*, p. 20.

https://www.originenergy.com.au/content/dam/origin/about/investors-media/senate-submission-carbon-risk-disclosure-160331/Origin_Annual_Report_2016.pdf

along with further product and service innovations including Predictable Plan, Solar as a Service and a simplified bill.

Origin believes that intense competition across a number of markets has provided retailers with an incentive to improve customer experience and to ensure that customer service meets their expectations.

Price movements

Origin has provided IPART with an explanation of the basis of its recent price changes and agrees with IPART's finding that price changes in 2015-16, and from July 2016 are consistent with a competitive market. Despite the price increases, heavy discounting continues in the market, which suggests that retailers are willing to forego margin to retain or attract customers; the low barrier to entry in the market also acts to place competitive pressure on retailers so that they risk losing customers if their prices are too high. As IPART observes, heavy discounting by retailers means that customers have the opportunity to save a substantial amount of money by selecting a competitive market offer.

Rivalry and product diversity

The continued development of the market for behind-the-meter energy products is placing additional competitive pressure on retailers and leading to more rivalry and product diversity in the market. This year, Origin collaborated with Tesla to offer customers a 6.4kWh Powerwall product. These are designed to be integrated into new or existing solar systems. We expect storage systems to continue to decline in price and to compete as a partial substitution with traditional retailer supplied energy products. The increased uptake of battery systems will see retailers, in the longer term, offer customers that remain on the grid different energy supply products that complement their storage system. A deregulated market is better placed than a regulated one to develop these products because retailers have the greatest incentive to respond to price signals in the market when they are able to set their own prices and develop their own products. Origin agrees with IPART that these business models will compete directly with retailers; it is likely that retailers will respond to competitive pressure by developing innovative new products to maintain customer share. This is already the case with retailers, including Origin, obtaining licence exemptions in order to operate as Alternative Energy Sellers. Accordingly, Origin expects the competitive pressures on retailers from behind-the-meter products and services to continue and that consumers will be better served within a deregulated market.

Origin does not apply termination fees to its market offers, nevertheless Origin agrees with IPART's recommendation that the regulation of early termination fees ought to be removed in NSW. As IPART's analysis indicates, a majority of market offers no longer apply early termination fees to customers. This suggests that regulatory intervention is unnecessary as there is no problem that warrants intervention in the market. Furthermore, the lack of early termination fees indicates that the market for customers is competitive, with retailers focusing on winning over customers on the basis of the products they offer in the market.

Regulatory intervention

In light of recent competing reports on the state of competition in NSW's energy market, Origin agrees with IPART's observation that effective competition in the market is demonstrated by customers being able to find a better deal. A customer's price reflects the value they place on a product; those who are motivated will seek out a better deal. As IPART points out, customers will respond to price signals differently; what is important for assessing competition is whether customers are provided the opportunity to choose another deal. As has been stated as part of a review of the energy market in the

United Kingdom, “Competition is appropriately seen as a rivalrous discovery process”; examining whether a market functions well is not a

*licence to specify a series of features that it would be “nice to have” but that may not be feasible to achieve or that may be achievable only at disproportionate cost, or with unintended consequences that harm customers and competition. Similarly, a realistic approach to assessing effects on consumers, and behaviour of customers, implies setting aside purely theoretical and empirically unsubstantiated assumptions about how consumers might or should behave, and focusing on evidence about how they actually do behave.*⁴

Even well-intentioned regulatory intervention is more likely to have unintended consequences, such as increasing transaction costs, and that the cumulative impact of them is to increase prices for consumers.⁵ This is particularly the case where this intervention is premised on assumptions of what consumers think, rather than allowing their preferences to become apparent through a well-functioning and efficient market.

Closing

As a consequence of deregulation, competition will continue to improve around the delivery of services and customers will be provided with broader choices in the market that will reflect the level of service they prefer. This is becoming increasingly important in order to remain relevant and competitive in light of emerging competition from alternative energy sellers and the lowered barriers to entry following the end of price regulation. Similarly, tariff structures will change in coming years, and customers will benefit from a range of choices that may enable them to shift their energy use to their advantage. Energy markets are undergoing technological change and disruption but a deregulated environment provides necessary signals for market participants to react and allows change to be absorbed efficiently by private entities.

Origin would be pleased to discuss any matters raised within this response with IPART. Please contact Timothy Wilson (Retail Regulatory Analyst) in the first instance on (03) 8665 7155.

Yours sincerely

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⁴ Littlechild, McCarthy, Marshall, Smith, Spottiswoode, *Submission to CMA*, 7 August 2014, p. 3. Accessed here: <http://www.eprg.group.cam.ac.uk/wp-content/uploads/2014/08/Submission-to-CMA-7-Aug-2014.pdf>

⁵ Ibid, p. 3.